



Ryosan Company, Limited

# Counter Measures for Profitability Enhancement: Progress Report

January 15, 2020

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## Counter Measures for Profitability Enhancement: Overview

### Counter Measures for Profitability Enhancement: Individual Measures

### (Attached) Results for FY2019 First Half and Business Plan for Full Year FY2019

#### Notice

Business forecasts and all statements related to the future contained in this material are based on information currently possessed by Ryosan Company, Limited (Ryosan) and on certain assumptions which are judged to be rational. Actual business performance may differ greatly depending on a variety of factors. The following is a list of major factors:

- Economic conditions in key markets (Japan and the rest of Asia), rapid changes in consumption trends and supply-demand balance for products
- Sharp fluctuations in the dollar-yen exchange rate
- Substantial fluctuation in prices in capital markets

### Background

<b>Issues</b>	<ul style="list-style-type: none"> <li>• Drastic changes of the key suppliers' marketing policies.</li> <li>• Requests for the inventory holdings from customers and suppliers.</li> <li>• Additional HR cost burden to attain the growth strategies.</li> <li>• Interest burden arising from the increase of US\$ loan amount.</li> <li>• Global market slowdown including China.</li> </ul>
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<b>Ryosan's response</b> (Published May 2019)	<ul style="list-style-type: none"> <li>• Ryosan decided to suspend the 10<sup>th</sup> Medium-Term Business Plan due to fundamental (non-seasonal) business environment changes.</li> <li>• Ryosan launched company-wide initiatives for profitability enhancement in FY2019. Measures are under way to reform the business portfolio, aiming for ROE of 5% in FY2020.</li> </ul>
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**Update on profitability enhancement initiatives, including the governance framework, progress and prospects.**

### Overview of Measures (Reviewed)

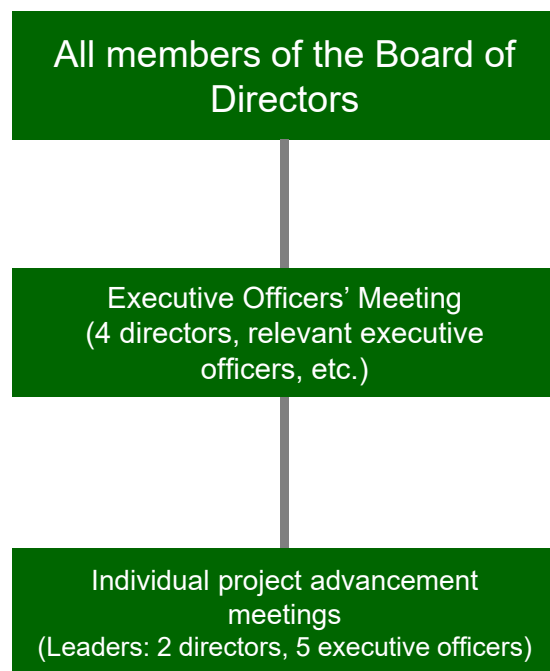
		Measures in Medium-term Business Plan	Actions
<b>Growth strategy</b>	• Solution Business	Review	Profitability enhancement (Reorganization)
	• Creation of new suppliers		
	• New business models		
	• Local overseas business	Continue	Consideration of strategic investments
<b>Financial strategy</b>		Review	Profitability enhancement (Financial reform)
<b>Infrastructure strategy</b>	• Qualitative enhancement of corporate governance	Continue	Internal controls ESG
	• Strengthening of management infrastructure <ul style="list-style-type: none"> <li>➢ Reorganization</li> <li>➢ Personnel system renewal</li> <li>➢ Optimization of control functions</li> </ul>	Review	Profitability enhancement (Reorganization)

### Schedule

<b>May 2019</b>	➤	<b>January 2020 (Today)</b>	➤	<b>FY2020</b>
<ul style="list-style-type: none"> <li>• Suspension of medium-term business plan</li> <li>• Publication of measures to enhance profitability</li> </ul>		<ul style="list-style-type: none"> <li>• Status update on counter measures</li> </ul>		<ul style="list-style-type: none"> <li>• Publication of new medium-term business plan</li> </ul>

- Measures to enhance profitability were launched under the direct supervision of the President.
- The leaders of each project are the relevant directors or executive officers in charge.
- Progress status is confirmed at Executive Officers' Meetings and reported to all members of the Board of Directors.

### Framework



### Overview of measures to enhance profitability (Overseen by: Director, Senior Executive Officer, In charge of Profitability Enhancement)

	Project name	Leader
Reorganization	I. Withdraw from non-profitable businesses	Senior Executive Officer, President and Representative Director of SAXIS Company, Limited
	II. Optimize organizations	Executive Officer, General Manager, Sales Administration Headquarters
	III. Evaluate and concentrate on key projects for Solution Business initiatives	Executive Officer, General Manager, Solution Business Headquarters
	IV. Streamline control function	Director, Senior Executive Officer, General Manager, Finance and Accounting Headquarters Executive Officer, General Manager, Administrative Headquarters
	V. Optimize headcounts	Executive Officer, General Manager, Administrative Headquarters
	VI. Expand Renesas business through non-organic approach	Representative Director, President
	VII. Introduce business model to change the engineering function to the profit center	Executive Officer, General Manager, Engineering Headquarters
Financial reform	VIII. Reduce inventory volume and minimize US\$ borrowing	Senior Executive Officer, President and Representative Director of SAXIS Company, Limited
	IX. Minimize head office space usage	Director, Senior Executive Officer, General Manager, Finance and Accounting Headquarters Executive Officer, General Manager, Administrative Headquarters
	X. Dispose of non-working assets including investment securities	Director, Senior Executive Officer, General Manager, Finance and Accounting Headquarters Executive Officer, General Manager, Administrative Headquarters

# Objectives of Counter Measures for Profitability Enhancement

Overview

- 1) Improvement of business efficiency through withdrawal from non-profitable businesses, optimization of organizations, etc.
- 2) Reduction of various operating costs through reduction of personnel and corporate assets as a result of the above measures
- 3) Strengthening of Renesas business and engineering business to strengthen profitability

		Raising efficiency	Cost reduction	Enhancement of profitability
Reorganization	I. Withdraw from non-profitable businesses	✓		
	II. Optimize organizations	✓		
	III. Evaluate and concentrate on key projects with Solution Business initiatives	✓		✓
	IV. Streamline control function	✓		
	V. Optimize headcounts		✓	
	VI. Expand Renesas business through non-organic approach	3)		✓
	VII. Introduce business model to change the engineering function to the profit center			✓
Financial reform	VIII. Reduce inventory volume and minimize US\$ borrowing		✓	
	IX. Minimize head office space usage		✓	
	X. Dispose of non-working assets including investment securities		✓	
Added item	XI. Revise cost structure		✓	

Counter Measures for Profitability Enhancement: Overview

Counter Measures for Profitability Enhancement: Individual Measures\*

(Attached) Results for FY2019 First Half and Business Plan for Full Year FY2019

\* Some counter measures cannot be covered today due to duty of confidentiality and timing of project implementation.

# Withdraw from Non-profitable Businesses (I)

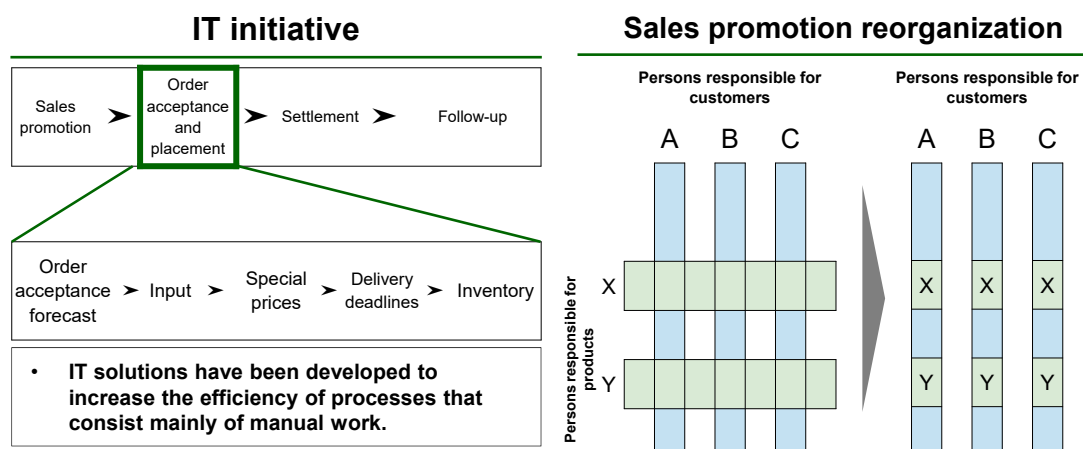
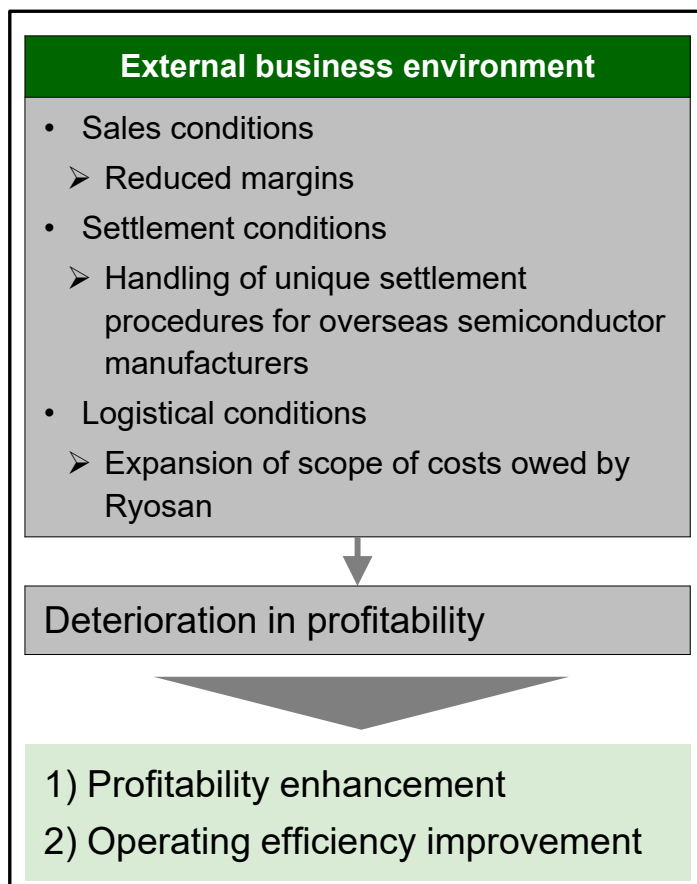
## Individual Measures (Reorganization)

- As a result of changes in sales margins, settlement, logistics etc., profitability of some overseas semiconductor supplier operations has deteriorated.
- Ryosan is limiting the scope of transactions by revising its commercial rights and decreasing costs by reducing personnel assigned to overseas semiconductor supplier operations. At the same time, Ryosan is improving operating efficiency by introducing IT solutions systems and revising the sales organizations.

### 1) Profitability enhancement: Business plan of overseas semiconductor manufacturer A (ex.)

	FY18	FY19	FY20	
	Results	Plan	Plan	Comparison with FY18
<b>No. customers</b>	14	12	6	<b>-57%</b>
<b>No. personnel</b>	32	24	9	<b>-72%</b>

### 2) Operating efficiency improvement





- The corporate network has been simplified through reduction of leased properties at head office, consolidation of branches, reorganization of logistics centers, etc.
- ROI of Solution Business initiatives is being enhanced by reviewing all projects and by concentrating resources on promising projects.
- Control functions have been streamlined through business process re-engineering, etc. and resources will be shifted to sales departments and/or sections.

### Network Optimization

- Reduction of leased properties through revision of facility usage to decrease leasing expenses
- Consolidation of branches through business process standardization and introduction of efficient customer support structure.
- Reduction of logistics costs through revision of logistics routes and reorganization of logistics centers in the Chukyo and West Japan regions

### Reassessment of Solution Business initiatives

	FY19	FY20	
	Plan	Plan	Comparison with FY2019
<b>Net sales (¥ Bil)</b>	5.6	7.2	<b>+29%</b>
<b>No. projects</b>	24	15	<b>-38%</b>
<b>No. personnel</b>	34	26	<b>-24%</b>

### Trend in Number of Facilities

	FY18	FY19	FY20		Next steps
	Results	Plan	Plan	Comparison with FY18	
<b>Head-office-related</b>	5	5	3	<b>-2</b>	→ <b>Project IX</b>
<b>Branches</b>	21	21	15	<b>-6</b>	→ <b>Project X</b>
<b>Logistics bases</b>	4	2	2	<b>-2</b>	

### Control Function Review

Department name	No. personnel
<b>Corporate Planning</b>	13
<b>Administrative</b>	48
<b>Finance and Accounting</b>	18
<b>Sales Administration</b>	6
<b>Total</b>	85

- Business process re-engineering
- Outsourcing
- Mergers of HO Departments

### 1. Reasons for and Background to Recruitment of Early Retirees

With profitability declining as the business environment has been deteriorating, Ryosan has not attained enough revenues to cover operating expenses. To promote further reductions in SG&A, Ryosan is canvassing employees who are willing to take early retirement.

### 2. Overview of Early-retiree Recruitment System

- (1) Eligible persons: Full-time and temporary employees who will be 58 years of age or older as of March 31, 2020 (not including persons essential to Ryosan's operations)
- (2) Number of persons to be recruited: About 80
- (3) Recruitment period: From February 3 to 14, 2020
- (4) Retirement date: March 31, 2020
- (5) Incentives: Retirees will be treated as retiring at the convenience of Ryosan. As such, early retirees will receive a special supplement in addition to the prescribed retirement bonus. All remaining leave will be paid. In addition, early retirees will receive assistance in finding new employment from an outplacement company.

### 3. Future Prospects

Ryosan expects to appropriate the expenses for special supplements and outplacement incurred through recruitment of early retirees as extraordinary losses in the accounts for the fiscal year ending March 31, 2020 (FY2019). Impact on full-year business results is currently being assessed and will be reported when the FY2019 accounts are published (it is not expected to conflict with the disclosure standards established by the Tokyo Stock Exchange).

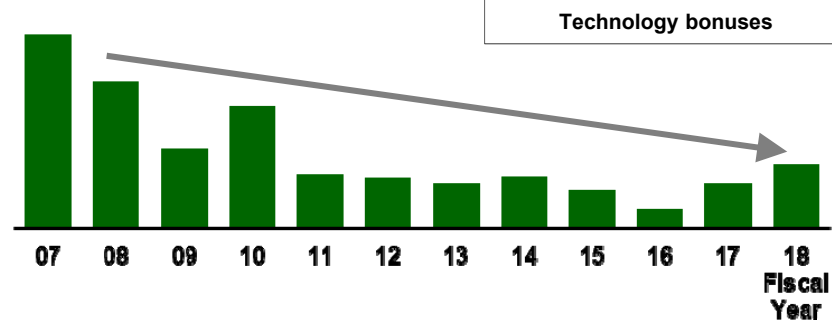
# Introduce Business Model to Change the Engineering Function to the Profit Center (VII)

## Individual Measures (Reorganization)

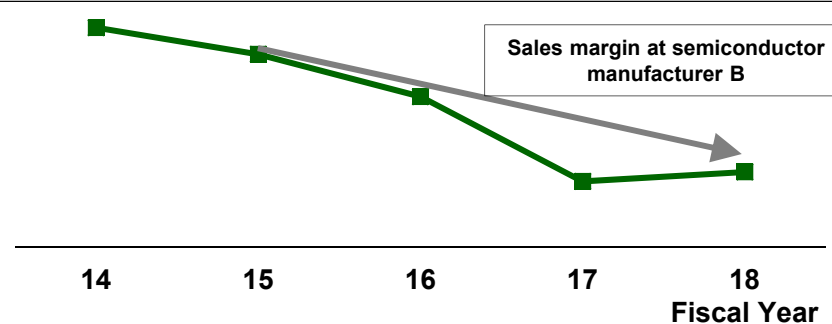
- As a result of reduction of technology bonuses and lowering of margin standards, Ryosan is having difficulty covering the expenses of the engineering functions it holds as a technology trading company.
- Ryosan envisages turning the engineering function into profit centers by selling certain technologies in its possession and switching to high-value-added services.

### Changes in business environment for technology trading companies

- Technology bonuses from suppliers have been declining due to policy changes.



- Margins (covering tech staff costs) have been squeezed due to intensified market competition.



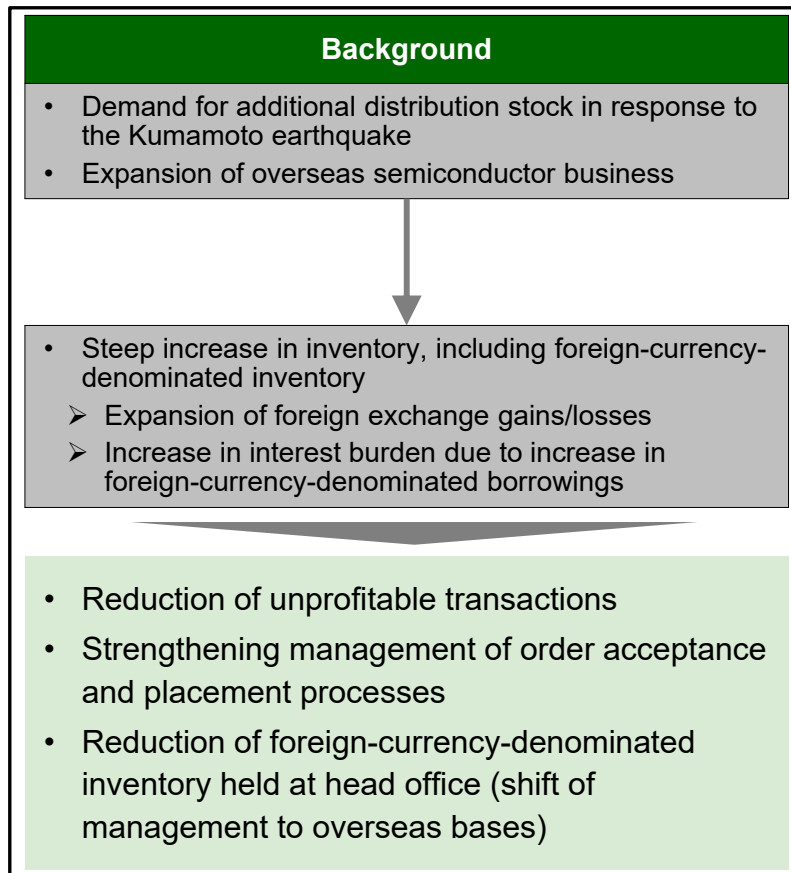
### Initiatives by engineering function

Measure	No. personnel	Details
System proposal (Sler function)	10	<ul style="list-style-type: none"> <li>• Outside sales of technologies developed in-house</li> </ul>
Contracted development (ASIC/software development)	45	<ul style="list-style-type: none"> <li>• Shift of resources to high-value-added fields</li> <li>• Expansion of analytical services for ASIC abnormalities</li> </ul>
Device support (FAE functions)	25	<ul style="list-style-type: none"> <li>• Introduction of fees for high-value-added services</li> <li>• Direct marketing</li> </ul>
Existing tech support	50	<ul style="list-style-type: none"> <li>• Items related to existing businesses, quality control, etc.</li> </ul>
<b>Total</b>	<b>130</b>	

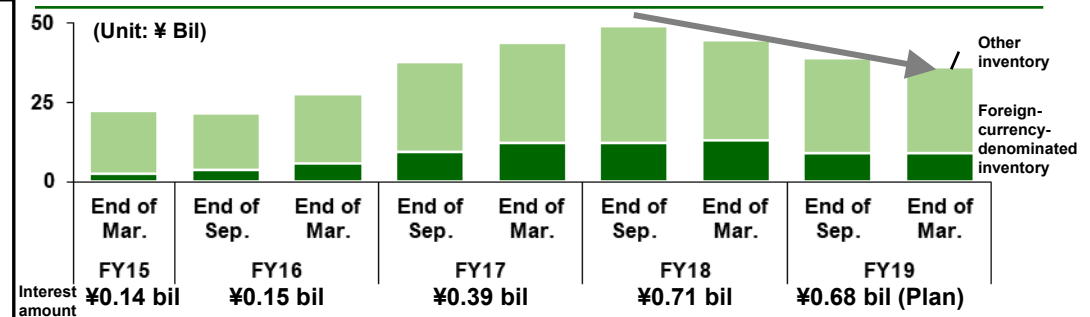
# Reduce Inventory Volume and Minimize US\$ Borrowing (VIII)

## Individual Measures (Financial Reform)

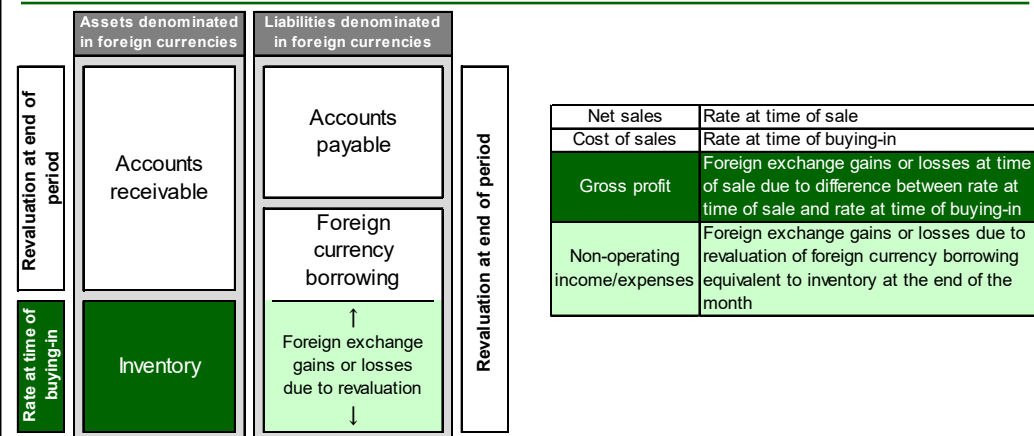
- Inventory, including inventory denominated in foreign currencies, has risen steeply, mainly due to external factors since FY2017. Relevant expenses have become a major factor suppressing profitability for Ryosan.
- Ryosan has reduced inventories through measures such as reduction of unprofitable businesses (discussed earlier), strengthening internal controls over order acceptance and placement procedures and shifting some management duties overseas. Relevant costs are being reduced.



**Trend in inventory value**



**Methods of hedging exchange risk and their financial impact (Reproduction of November 2018 presentation documents)**



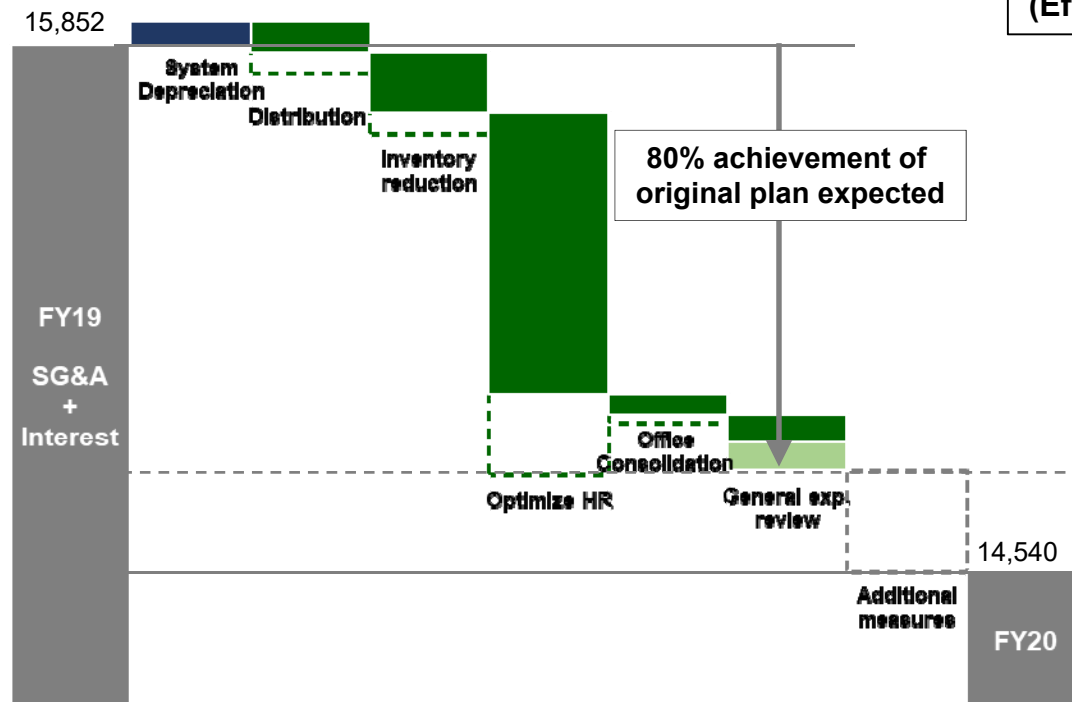
# Expected Quantitative Effects

## Individual Measures

- Despite some divergence from the expected scale of reduction, Ryosan has attained cost reduction of roughly 80% of the plan.
- Ryosan expects to achieve its target for ROE in FY2020 through additional measures from Jan. 2020.
- Expected one-time expenses in FY2019 arising from these measures will be ¥900 million as was stated in the original plan.

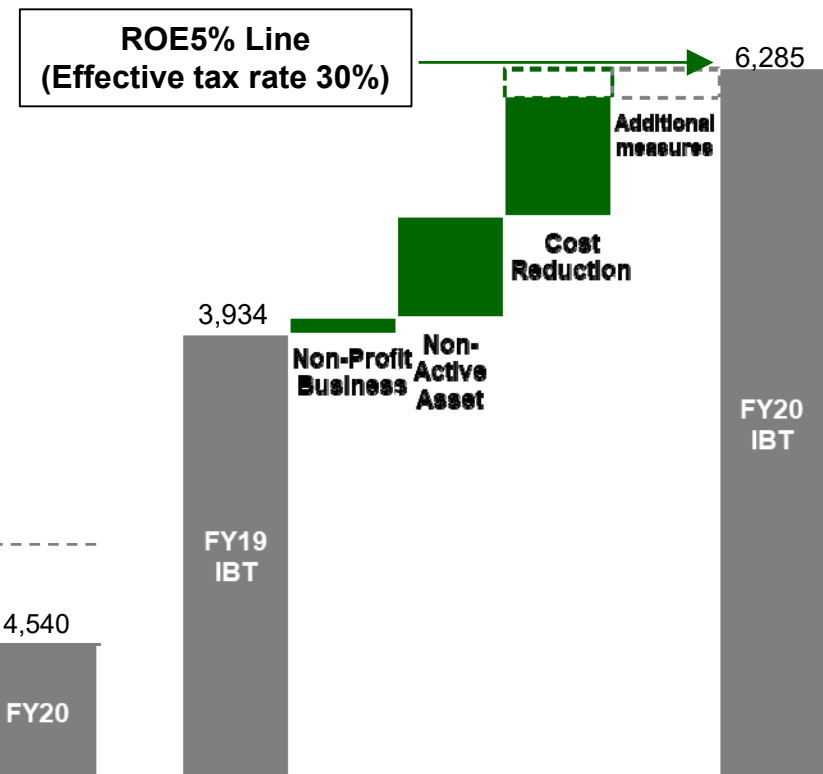
Cost reduction effects in FY2020 (expected)

(Unit: ¥Mil)



FY2020 profit increase plan (expected)

(Unit: ¥Mil)



Counter Measures for Profitability Enhancement: Overview

Counter Measures for Profitability Enhancement: Individual Measures

(Attached) Results for FY2019 First Half and Business Plan for Full Year FY2019

# Consolidated Statements of Operation

Financial Results for  
FY2019 First Half

- In the consolidated first half of fiscal year 2019, both net sales and operating income declined against the same period of the previous fiscal year (YoY). Ordinary income increased, due to the effect of revaluation of foreign-currency-denominated liabilities, appropriated in the same period of the previous fiscal year, resulting in a foreign-exchange gain.
- Reorganization of logistics facilities resulted in write-down expenses, causing extraordinary losses to reduce net profit growth.

(Unit: ¥Bil)	H1 FY18	H1 FY19			
	Amount	Amount	Change	Initial Plan	Comparison with Initial Plan
<b>Net Sales</b>	128.9	<b>116.4</b>	-9.7%	115.0	+1.3%
<b>Gross Profit</b>	10.7	<b>9.2</b>	-13.6%	9.3	-1.1%
<b>(% of Net Sales)</b>	(8.3%)	<b>(7.9%)</b>	(-0.4pt)	(8.1%)	(-0.2pt)
<b>Operating Income</b>	2.8	<b>1.8</b>	-34.8%	1.7	+11.1%
<b>(% of Net Sales)</b>	(2.2%)	<b>(1.6%)</b>	(-0.6pt)	(1.5%)	(+0.1pt)
<b>Ordinary Income</b>	1.6	<b>1.8</b>	+15.9%	1.4	+34.1%
<b>(% of Net Sales)</b>	(1.3%)	<b>(1.6%)</b>	(+0.3pt)	(1.2%)	(+0.4pt)
<b>Net Profit</b>	1.0	<b>1.0</b>	+2.3%	1.0	+8.1%
<b>(% of Net Sales)</b>	(0.8%)	<b>(0.9%)</b>	(+0.1pt)	(0.9%)	(0.0pt)
<b>EPS (¥)</b>	43.62	<b>46.15</b>	+5.8%	42.68	+8.1%
<b>US Dollar Average Rate (¥)</b>	110.26	<b>108.63</b>	-1.5%	108.00	+0.6%

# Segment Information

Financial Results for  
FY2019 First Half

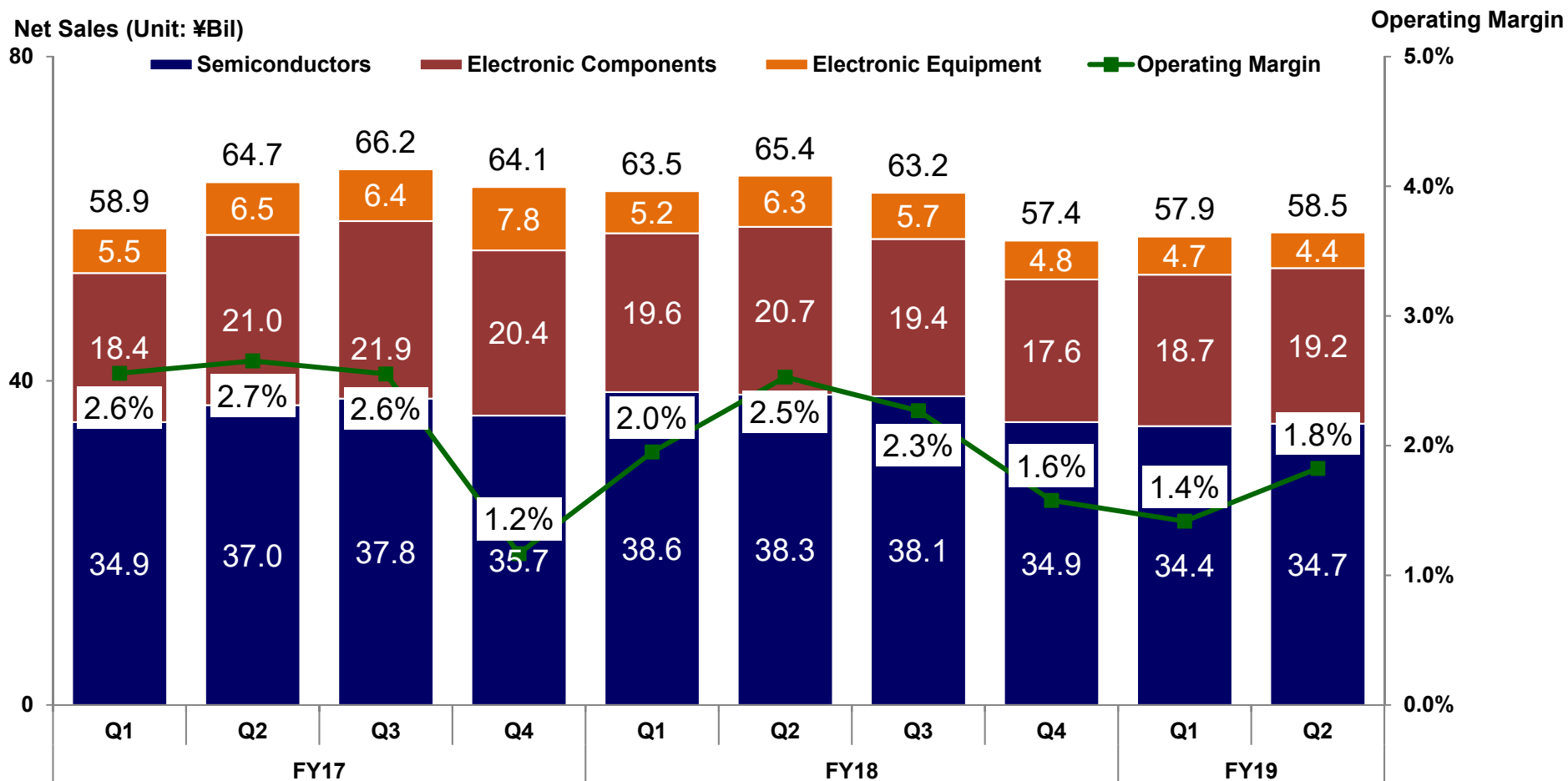
- In the Semiconductors business, both sales and income declined, due to a downturn in the industrial equipment business and a decrease in sales incentives.
- The Electronic Components business was subject to falls in both sales and income, as the consumer business reversed course and declined from an increasing trend of the first half of FY2018 and sales of value-added products for industrial equipment trended downward.
- In the Electronic Equipment business, handling of value-added products and the like resulted in a decline in sales and an increase in income, in comparison both to the same period of the previous fiscal year and to the plan at start of the fiscal year.

(Unit: ¥Bil)		H1 FY18	H1 FY19			
		Results	Results	Change	Initial Plan	Comparison with Initial Plan
Semiconductors	Net Sales	77.0	<b>69.2</b>	-10.1%	69.5	-0.4%
	Operating Income (% of Net Sales)	1.3 (1.8%)	<b>0.8</b> <b>(1.2%)</b>	-42.3% (-0.6pt)	0.9 (1.3%)	-10.4% (-0.1pt)
Electronic Components	Net Sales	40.4	<b>38.0</b>	-6.0%	35.5	+7.0%
	Operating Income (% of Net Sales)	1.4 (3.7%)	<b>1.1</b> <b>(3.1%)</b>	-19.5% (-0.6pt)	0.9 (2.5%)	+32.9% (+0.6pt)
Electronic Equipment	Net Sales	11.5	<b>9.2</b>	-20.1%	10.0	-7.8%
	Operating Income (% of Net Sales)	0.1 (1.5%)	<b>0.1</b> <b>(1.9%)</b>	+1.2% (+0.4pt)	0.1 (1.0%)	+73.0% (+0.9pt)
Total	Net Sales	128.9	<b>116.4</b>	-9.7%	115.0	+1.3%
	Operating Income (% of Net Sales)	2.8 (2.2%)	<b>1.8</b> <b>(1.6%)</b>	-34.8% (-0.6pt)	1.7 (1.5%)	+11.1% (+0.1pt)



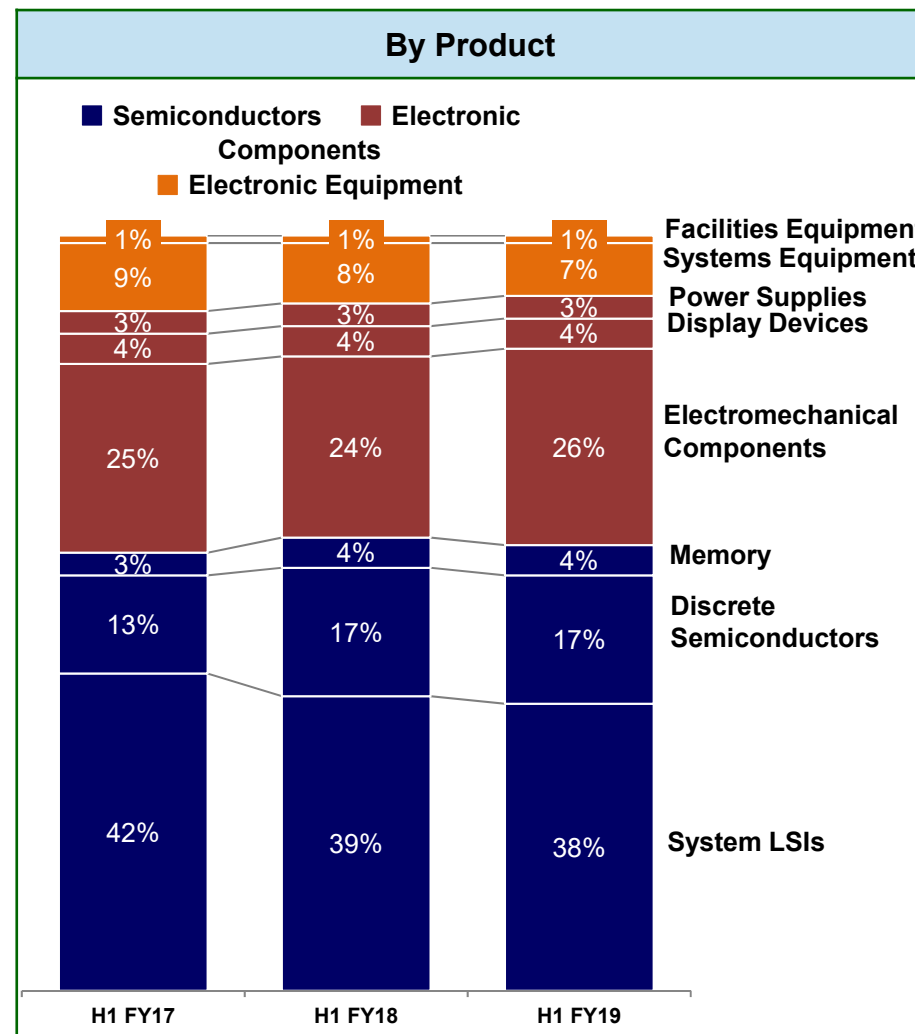
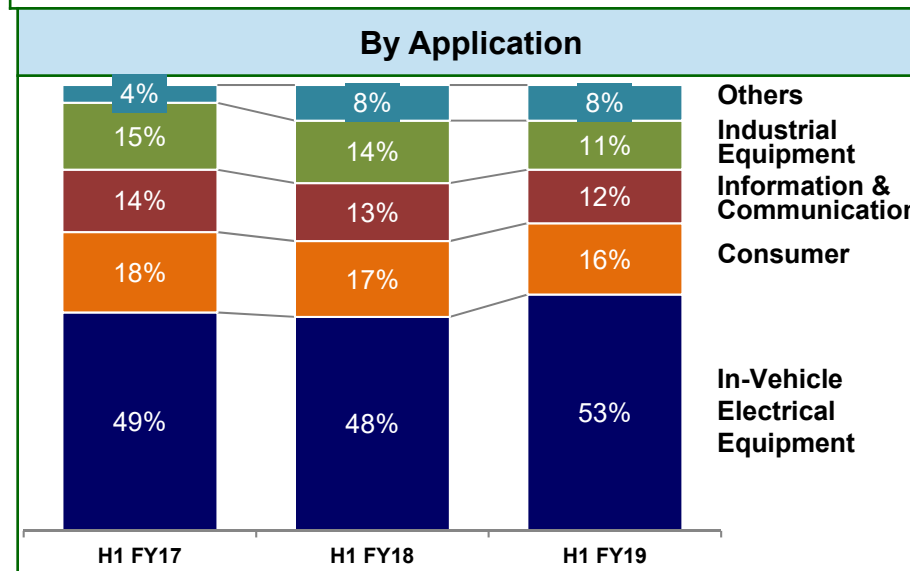
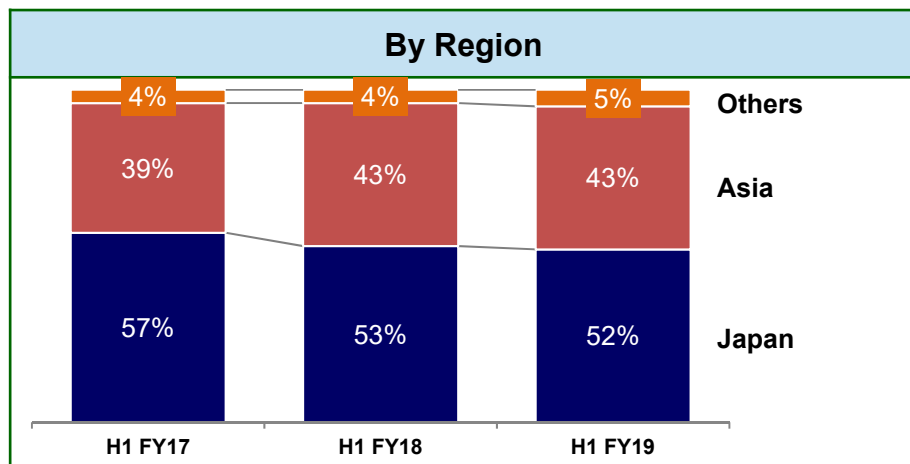
# Trend in Net Sales and Operating Margins by Quarter

- Net sales has trended below ¥60 bil per quarter since Q4 FY2018, under pressure from a downtrend in demand in the industrial equipment market.
- Operating margin declined to 1.4% in Q1 FY2019, due to a reduction in gross profit resulting from falling net sales. A decrease in selling, general and administrative expenses supported a recovery in operating margin to 1.8% in Q2 FY2019.



# Segment Trend Information

- In trends by region, no significant changes are recognized. In trends by application, only business related to in-vehicle electrical equipment held steady YoY, causing this segment to increase its share of net sales. Trends by product indicated a solid trend in electromechanical components for in-vehicle electrical equipment.



- As a result of payments such as ¥1.7 bil for the FY2018 year-end dividend, which included a special dividend, net assets decreased to ¥86.4 bil.
- A decline of ¥4.9 bil in inventories, combined with the downturn in net sales and other factors, engendered a ¥3.1 bil decrease in notes and accounts receivable–trade. As a result, cash flow from operating activities grew to positive ¥13 bil (¥4 bil increase YoY). Cash and cash equivalents at the end of the period reached ¥21.1 bil (¥4 bil increase YoY).

(Unit: ¥Bil)	As of Mar. 31, 2019	As of Sept. 30, 2019	Increase and Decrease
<b>Total Assets</b>	146.5	<b>141.4</b>	-5.1
<b>Current Assets</b>	129.3	<b>124.5</b>	-4.8
<b>Non-Current Assets</b>	17.2	<b>16.8</b>	-0.4
<b>Liabilities</b>	58.7	<b>54.9</b>	-3.8
<b>Net Assets</b>	87.8	<b>86.4</b>	-1.4
<b>Net Assets to Total Assets (%)</b>	59.9%	<b>61.1%</b>	+1.2pt

(Unit: ¥Bil)	FY18 1H	FY19 1H	Increase and Decrease
<b>Cash Flow from Operating Activities</b>	9.0	<b>13.0</b>	+4.0
<b>Cash Flow from Investing Activities</b>	-0.2	<b>-0.1</b>	+0.1
<b>Cash Flow from Financing Activities</b>	-5.1	<b>-6.1</b>	-1.0
<b>Cash and Cash Equivalents at the End of the Period</b>	17.1	<b>21.1</b>	+4.0

# Business Objectives

Business Plan for  
Full Year FY2019

- The forecast for full-year business results in FY2019 is unchanged from the forecast at the start of the fiscal year, announced in May 2019.
- The USD exchange rate is changed from ¥108 to ¥105. The H2 forecast below for income does not include the effect of currency-rate fluctuations.

(Unit: ¥Bil)	FY18	FY19					
	Full Year	1st Half	2nd Half Plan	Full-Year Plan	Change (FY19-18)	Initial Plan	Comparison with Initial Plan
<b>Net Sales</b>	249.6	116.4	118.5	235.0	-5.9%	235.0	0.0%
<b>Gross Profit</b>	20.6	9.2	10.0	19.3	-6.5%	19.3	0.0%
<b>(% of Net Sales)</b>	(8.3%)	(7.9%)	(8.5%)	(8.2%)	(-0.1pt)	(8.2%)	(0.0pt)
<b>Operating Income</b>	5.2	1.8	2.3	4.2	-19.8%	4.2	0.0%
<b>(% of Net Sales)</b>	(2.1%)	(1.6%)	(2.0%)	(1.8%)	(-0.3pt)	(1.8%)	(0.0pt)
<b>Ordinary Income</b>	3.9	1.8	1.7	3.6	-9.4%	3.6	0.0%
<b>(% of Net Sales)</b>	(1.6%)	(1.6%)	(1.5%)	(1.5%)	(-0.1pt)	(1.5%)	(0.0pt)
<b>Net Profit</b>	1.4	1.0	0.8	1.9	+28.4%	1.9	0.0%
<b>(% of Net Sales)</b>	(0.6%)	(0.9%)	(0.7%)	(0.8%)	(+0.2pt)	(0.8%)	(0.0pt)
<b>EPS (¥)</b>	62.07	46.15	34.94	81.09	+30.6%	81.09	0.0%
<b>US Dollar Average Rate (¥)</b>	110.91	108.63	105.00	106.82	-3.7%	108.00	-1.1%

# Overview of Business Plan by Business Segments

Business Plan for  
Full Year FY2019

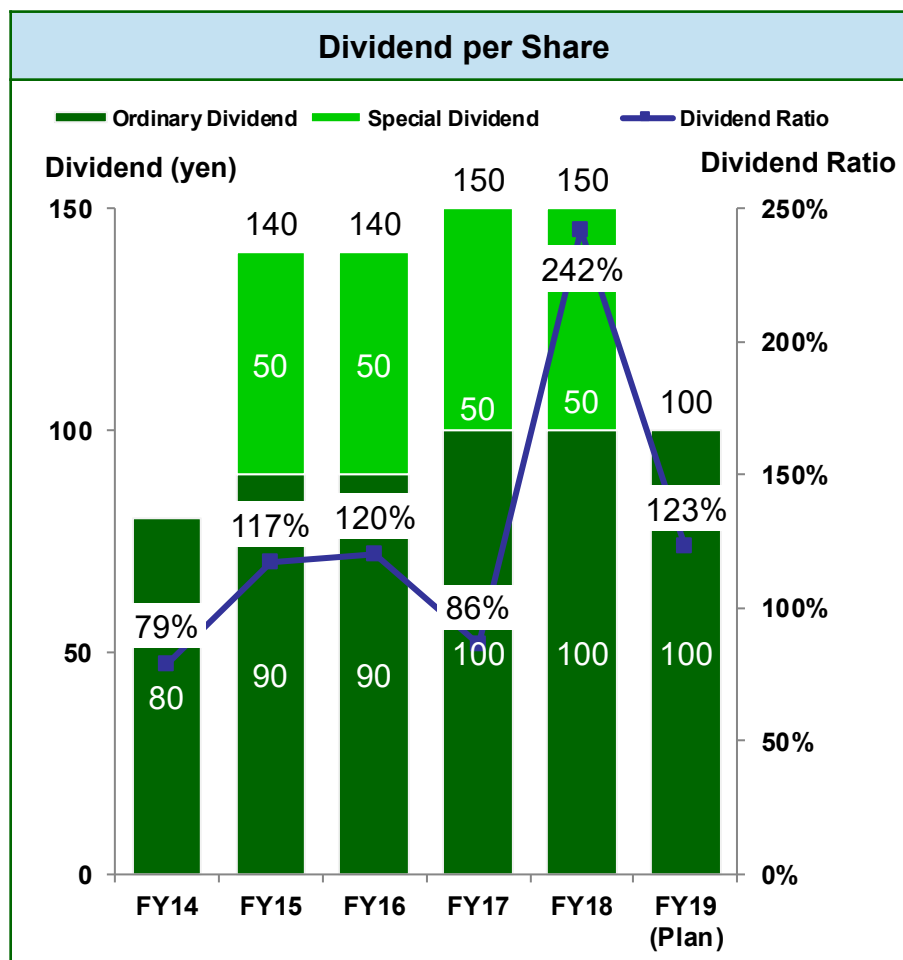
- In H2 FY2019, the Company expects its Semiconductors and Electronic Equipment businesses to benefit from a recovery in orders serving industrial equipment, with gradual increases in net sales and operating income. However, both sales and income are forecast to decline for the Electronic Components business due to an expected drop in consumer goods orders from the fiscal half-year under review.
- In view of the results in H1, the forecast for the FY2019 full fiscal year is revised downward for the Semiconductors and Electronic Equipment businesses. However, figures for the Electronic Components business are revised upward. The total of all forecasts by business segment is unchanged from the start of the period.

(Unit: ¥Bil)		FY18	FY19					
		Full Year	1st Half	2nd Half Plan	Full-Year Plan	Change (FY19-18)	Initial Plan	Comparison with Initial Plan
Semiconductors	Net Sales	150.1	69.2	72.2	<b>141.5</b>	-5.7%	142.0	-0.4%
	Operating Income	2.4	0.8	1.3	<b>2.1</b>	-12.8%	2.2	-4.4%
	(% of Net Sales)	(1.6%)	(1.2%)	(1.9%)	<b>(1.5%)</b>	(-0.1pt)	(1.6%)	(-0.1pt)
Electronic Components	Net Sales	77.4	38.0	36.4	<b>74.5</b>	-3.8%	71.5	+4.2%
	Operating Income	2.6	1.1	1.0	<b>2.2</b>	-15.1%	1.9	+18.4%
	(% of Net Sales)	(3.4%)	(3.1%)	(2.9%)	<b>(3.0%)</b>	(-0.4pt)	(2.7%)	(+0.4pt)
Electronic Equipment	Net Sales	22.1	9.2	9.7	<b>19.0</b>	-14.2%	21.5	-11.6%
	Operating Income	0.3	0.1	0.2	<b>0.4</b>	+4.7%	0.4	0.0%
	(% of Net Sales)	(1.7%)	(1.9%)	(2.3%)	<b>(2.1%)</b>	(+0.4pt)	(1.9%)	(+0.2pt)
Total	Net Sales	249.6	116.4	118.5	<b>235.0</b>	-5.9%	235.0	0.0%
	Operating Income	5.2	1.8	2.3	<b>4.2</b>	-19.8%	4.2	0.0%
	(% of Net Sales)	(2.1%)	(1.6%)	(2.0%)	<b>(1.8%)</b>	(-0.3pt)	(1.8%)	(0.0pt)

# Plan for Return to Shareholders

Business Plan for  
Full Year FY2019

- The FY2019 plan for return to shareholders is unchanged from the start of the period.
- The dividend is planned as an ordinary dividend of ¥100. No acquisition of treasury shares is planned.



### Acquisition of Treasury Shares

Year	No. of Acquired Shares (Thousand)	Amount (¥Bil)
FY12	1,000	1.9
FY13	1,000	1.9
FY14	450	1.8
FY15	1,550	4.6
FY16	1,370	4.4
FY17	3,610	15.9
FY18	1,050	4.2
FY19 (Plan)	—	—